

# INTERNATIONAL EXECUTIVE REVIEW



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**Bulletin #67: The End of the Petrodollar**

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## The Prince of Saudi Arabia Decides Not to Renew the Petrodollar Agreement

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**The Crown Prince of Saudi Arabia has made a monumental decision not to renew the 50-year-old petrodollar agreement with the United States.** This agreement, first established in 1974, required oil sales from Saudi Arabia to be conducted exclusively in US dollars. The expiration of this pact marks a significant shift in global financial dynamics, potentially impacting the dominance of the US dollar in the oil market.

Saudi Arabia's move towards [dedollarization](#) aligns closely with its growing ties to [BRICS](#), a coalition of emerging economies. By refusing to renew the petrodollar pact, Saudi Arabia signals its intention to diversify its economic partnerships and reduce reliance on the United States. This decision could lead to economic and political realignments on a global scale, affecting international trade and financial stability.

The end of the petrodollar agreement also introduces new challenges and opportunities for various stakeholders, from governments to financial institutions. Energy markets and geopolitical strategies may undergo substantial changes as the world adapts to this new reality. Observers are watching closely to see how this decision will reshape the economic landscape and influence future international relations.

### Key Takeaways

- Saudi Arabia ends the 50-year-old petrodollar agreement with the US.
- The decision reflects Saudi Arabia's shift towards economic diversification and dedollarization.
- This move has significant global economic and political implications.

# Historical Context of the Petrodollar System

## Origins and Significance

The Petrodollar System began in the early 1970s. A pivotal moment was the end of the Bretton-Woods System in 1971, which had previously stabilized global currencies.

In 1974, Secretary of State Henry Kissinger and Saudi Prince Fand Ibn Abdel Aziz formalized the Petrodollar agreement. This pact ensured that oil sales by OPEC members would be priced in U.S. dollars. In return, the U.S. offered military protection and economic incentives to Saudi Arabia.

This agreement shifted the global monetary landscape. It firmly linked the dollar to oil, giving the U.S. economic leverage. It also ensured demand for the dollar, as countries needed it to purchase oil, supporting the U.S. financial system.

## Saudi Arabia's Role

Saudi Arabia played a crucial role in upholding the Petrodollar System. Under King Abdulaziz Ibn Saud, the country became a leading oil producer and exporter.

In 1945, the Quincy Agreement between President Roosevelt and King Abdulaziz laid the groundwork for cooperation between the two nations. Saudi Arabia's vast oil reserves and strategic location made it an essential partner for the U.S.

As one of the top members of OPEC, Saudi Arabia's compliance meant other OPEC nations followed suit. This ensured the continued pricing of oil in dollars. The country's commitment guaranteed a steady flow of oil to world markets, stabilizing global oil prices and reinforcing the U.S. dollar's dominance.

## The Impact on Global Trade

The Petrodollar System had widespread effects on global trade. By pricing oil in dollars, it created a consistent demand for the U.S. currency.

Countries around the world needed dollars to buy oil, leading to large reserves of dollars held by central banks globally. These reserves, often recycled back into U.S. assets, strengthened the American economy.

This system also influenced trade balances. Nations exporting oil to the U.S. would often reinvest their earnings in American businesses and government bonds, interlinking global financial markets and ensuring capital flow towards the U.S.

Ultimately, the Petrodollar System established the dollar as a primary reserve currency, anchoring international finance for decades. This, in turn, shaped economic policies and trade practices worldwide.

# Political Ramifications

## Changes in Saudi-U.S. Relations

Saudi Arabia's move to end the petrodollar agreement will likely strain relations with the United States. Washington has heavily depended on this pact to sustain the dominant position of the U.S. dollar in global oil markets.

Without this agreement, Saudi Arabia can now sell oil in other currencies, weakening the dollar's influence. This change might prompt Washington to reassess its foreign policy and economic strategies with Riyadh.

In addition, Saudi Arabia's recent invitation to join BRICS and its move toward dedollarization showcases its intent to diversify partnerships. This diversification might pull Riyadh towards stronger ties with nations like China and Russia, altering the balance of power that America has held in the region.

## Impact on Middle Eastern Geopolitics

Ending the petrodollar agreement can shift alliances and power dynamics in the Middle East. Saudi Arabia's flexibility to use multiple currencies for oil sales allows it to form closer economic ties with non-Western nations such as China.

This could reduce U.S. influence in the region, particularly if these new alliances strengthen. Countries like Israel and other U.S. allies may need to adjust their strategies to navigate this new geopolitical landscape.

Further, the decision could accelerate efforts within the Middle East to diversify economies away from oil dependency. These changes might lead regional players to form new partnerships, altering the traditional power structures and potentially increasing cooperation with emerging global powers.

# Global Realignments

## Emergence of New Alliances

Saudi Arabia's exit from the petrodollar agreement marks a significant shift in international trade relations. Countries like China are positioning themselves to benefit from this change. By moving away from trading oil exclusively in US dollars, Saudi Arabia opens doors for new partnerships.

China, already a major player in global markets, is keen to exploit this opportunity to strengthen its own currency. This shift could reduce America's influence on international trade. Emerging technologies, like blockchain, might play a role in facilitating these new alliances by streamlining trade processes and reducing dependency on traditional banking systems.

## Strengthening of BRICS Countries

The BRICS countries—Brazil, Russia, India, China, and South Africa—are expected to benefit greatly from Saudi Arabia's decision. With Saudi Arabia now invited to join BRICS, these nations

are likely to see an increase in collaborative economic activities. This invitation signals a move towards a more multipolar world, reducing the dominance of Western economies.

China and Russia, in particular, may leverage this to enhance their geopolitical influence. The unified push towards dedollarization by BRICS could lead to wider acceptance of alternative currencies in international trade. This shift could challenge America's financial hegemony and create a more balanced global economic landscape.

## Potential New Financial Blocks

The expiration of the petrodollar pact could spur the formation of new financial blocks. Nations discontent with the dollar's dominance may seek alternative financial systems. Cryptocurrencies and digital currencies could emerge as viable alternatives for international transactions.

Countries within the BRICS group may start using their own currencies for trade, creating a financial block independent of the US dollar. Additionally, regional coalitions could develop their own trade agreements, further decentralizing global trade. This shift could lead to more localized economic policies, reducing the global influence of any single currency or country.

## Strategic Defense Considerations

### Shifts in Military Alliances

Saudi Arabia's alignment may shift with closer ties to BRICS, impacting its relationship with the U.S. The potential [U.S.-Saudi defense pact](#) can buffer this change, ensuring military and security guarantees remain intact.

As Saudi Arabia seeks strategic autonomy, it will likely diversify its defense partnerships. Countries like China and Russia may provide alternative military cooperation. This shift may weaken traditional U.S. influence in the region, altering power dynamics and regional security policies.

### Advancements in Defense Technology

Saudi Arabia is investing in modernizing its military with advanced technologies. Collaborations with the U.S. can include procurement of advanced [U.S. weaponry and artificial intelligence](#). These technologies enhance capabilities, providing a strategic edge.

Integrating artificial intelligence into defense systems can improve response times and operational efficiency. It also allows for more precise targeting and reduced collateral damage. The U.S. military's technological expertise can help Saudi Arabia upgrade its defense capabilities, ensuring it remains a formidable regional power.

# Conclusion

Saudi Arabia's decision to let the petrodollar agreement expire marks a significant shift in global finance. The move was announced by the Saudi Crown Prince and aligns with Saudi Arabia's recent membership in BRICS, an economic bloc aiming to reduce reliance on the US dollar.

This decision impacts the longstanding US-Saudi relationship. The petrodollar agreement has been a cornerstone of economic ties between the two nations for nearly 50 years. Saudi Arabia's new path may increase economic pressures on the United States.

The Israeli Prime Minister has also expressed concern over potential geopolitical shifts in the region. Israel, a close ally of the United States, might need to reassess its economic strategies in response to Saudi Arabia's decision.

The end of the petrodollar agreement signals a turning point. Future oil sales in currencies other than the US dollar may reshape global economic dynamics. This development is closely watched by financial markets and governments around the world.

The change also follows the principles of the Reuters Trust, aiming for transparency and accuracy in reporting significant global events.  The discussions around this topic highlight its importance in international news and finance.